



MARYLAND ECONOMIC DEVELOPMENT CORPORATION

MEDCO

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TESTIMONY OF

**J. Thomas Sadowski, Executive Director
Maryland Economic Development Corporation
Senate Bill 560**

***Maryland Economic Development Corporation - Student Housing Requirements -
Leases and Health or Safety Emergencies***

BEFORE

**Senate Budget and Taxation Committee
February 23, 2022
1:00 pm**

The Maryland Economic Development Corporation (MEDCO) supports SB 560 with required amendment as detailed below.

MEDCO's owns and operates certain student housing projects in Maryland, which have been built at request of the University System of Maryland (USM) and their member institutions, in order to address the critical need for student housing that was not being provided by third-party private sector investors and student housing developers. The deals are structured so that USM ground leases real property on the university campus to MEDCO. MEDCO works closely with the university and a selected developer to construct high-quality housing tailored to the university's specific needs for their student population. MEDCO issues student housing revenue bonds to finance the costs of construction, furnishing, and equipping of each project, establishing certain reserve funds, and other costs related to the transactions. The bonds are sold to investors through an underwriter selected by MEDCO and USM. Such bonds are generally secured by and repaid from the operational revenues of the project. Revenues are also used for to perform capital improvements at the projects and to pay various operating and maintenance fees.

MEDCO supports Economic Development Section 10-131 with clarifying changes.

MEDCO fully supports the creation of more consistent and transparent language for inclusion in its USM-affiliated student housing residential leases, license agreements, and/or housing contracts. Already, MEDCO has proactively implemented much of the language proposed in Section 10-131 for the 2022-2023 leasing year.

Regarding the clarifying changes, MEDCO respectfully requests language be added to define a term, such as “occupancy agreements,” to provide comprehensive coverage to references of MEDCO’s leases, license agreements, and housing contracts. In connection with the addition of the defined term, certain changes would also need to flow through Section 10-131. MEDCO has drafted specific language clarifications and can provide at the appropriate time.

It is important to note that MEDCO has always provided, and continues to provide, services that the typical for-profit third-party owner does not. MEDCO collaborates with the universities on rental rates, leasing/licensing agreements, student life plans, and judiciary actions. Furthermore, MEDCO communicates with the universities regularly to discuss projects and address students’ ongoing needs.

MEDCO does not support Section 10-132 and recommends its omission in the legislation proposed.

Section 10-132 of SB 560 will have a significant negative impact on MEDCO, its ability to operate its USM student housing projects, and to pay operating expenses and debt obligations. MEDCO has always worked collaboratively with the State and USM while maintaining independence, which has allowed MEDCO to serve as an invaluable resource for both the State and USM over the past two decades. By providing and managing needed student housing, MEDCO has allowed USM and its universities to (1) focus resources on the University-owned housing, (2) expand high quality housing and related resources for their students, (3) help the USM manage its debt capacity, (4) enable USM to use its’ financial resources on other strategic facilities and other non-housing projects, and most importantly, (5) help the USM provide a world-class education experience that is both accessible and affordable.

MEDCO does not receive appropriations from the State, USM, universities, or any other government entity; MEDCO’s student housing projects are therefore funded solely from the revenues generated from the operation of the projects. If Section 10-132 of SB 560 is approved, the MEDCO student housing projects’ performance and ability to collect revenues will hinder MEDCO’s ability to meet the debt service obligations to bondholders and pay ground rent to the institutions. This, in turn, may trigger credit rating downgrades on MEDCO bonds, and could injure MEDCO’s financial reputation in the market.

Furthermore, Section 10-132 would have a negative impact on USM’s credit rating, giving USM a level of control over MEDCO’s student housing projects that it has historically opted to avoid, so the projects are not considered as a USM debt obligation by rating agencies.

As a body politic and instrumentality of the State of Maryland, the governance and legal authority over MEDCO is limited to the State. MEDCO works collaboratively with USM, as evidenced at the start of the pandemic in March 2020 when MEDCO closed its housing facilities at USM’s request. However, USM does not and should not have legal authority over MEDCO’s student housing projects for the reasons previously stated.

In summary, MEDCO is supportive of the first section of SB 560 with clarifying changes and recommends the Senate Budget and Taxation Committee favorable report, contingent on the removal of Section 10-132 of the proposed bill.